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**IMPLEMENTING
A CHILD SUPPORT
PAYMENT CENTER**

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CHAPTER 1

INTRODUCTION

Introduction

In the short fifteen years since passage of the legislation that established the IV-D program, the process of collecting and distributing child support payments has become a very big business. In 1988, states and counties throughout the United States spent about \$1.2 billion to establish and enforce orders and to collect and distribute nearly \$4.6 billion in child support payments.¹

The process of recording and distributing payments is only one of many functions performed under the child support enforcement program. Agencies throughout the country also help to locate obligors, establish paternity, seek support orders from the courts, and enforce those orders. However payment processing is a substantial part of the administrative overhead of the program. The federal Office of Child Support Enforcement estimates that we are now spending about \$200 million each year on payment processing alone.²

Because payment processing is such a substantial part of program expense, attention is now being given to using innovative methods to make it more cost effective. The innovations discussed in this document fall into four major categories:

Centralized processing

This term describes the gathering of child support payments from several jurisdictions into a single payment center to increase efficiency and introduce economies of scale. For example, centralized processing will help to support the expense and volume requirements of some advanced payment processing equipment. While centralized processing is not the only way to increase efficiency, it can yield immediate and substantial benefits.

Remittance processing

Remittance processing, the chief activity at a payment center, is a group of technologies that are used together to automate the collection side of child support payment processing.

Electronic funds transfer

This term refers to the many uses of electronic, rather than paper, transactions to collect and disburse child support payments.

Advanced technologies

The array of services and computer-based equipment that are now being used to make child support payment processing more efficient are also described.

**The Goal
of this
Document**

This document can be used in two ways. First, it is a source of general information about innovative methods of processing child support payments. In this role, it can be used to assist agencies in building the support and consensus needed to implement more centralized payment processing, increased use of technology, or both. Second, it is a planning document that covers the decisions to be made and the steps to be taken to actually implement these approaches.

**The
Organization
of Information**

In Chapter 2, we describe the forces behind the increasing centralization of child support payment processing throughout the country. Chapter 3 explains remittance processing, a key component of central processing. Electronic funds transfer (EFT) techniques, used to accept and disburse child support payments electronically, are described in Chapter 4. Chapter 5 describes the technologies now available to child support agencies, especially those used in EFT. Chapter 6 outlines the steps to be taken in planning and implementing these approaches.

CHAPTER 2

CENTRALIZED CHILD SUPPORT PAYMENT PROCESSING

Centralizing Payment Processing

In this document, the term "payment center" is used to describe the place where child support payments from multiple jurisdictions are received and processed.

Central is not necessarily statewide

Although centralized processing is often done on a statewide basis, it is also possible for smaller entities to establish a payment center. For example, several counties might join together to create a new processing center so they can share the expenses of receipting technology and gain from the economies of centralization. Large counties may have sufficient payment and disbursement volumes to support their own processing center.

How centralized processing works

When payment processing is centralized, obligors and employers are instructed to submit child support payments directly to the payment center, along with a coupon or bill supplied by the child support agency. At the center, payments are entered through a remittance processing machine that records the amount and the case with which the payment is associated. Staff members at the payment center then determine the appropriate distribution of the receipted funds (i.e., the amount that should go to the obligee) and prepare the information needed by the entity (usually a Controller or Treasurer's Office) that creates the outgoing warrants or electronic direct deposits.

The role of technology

The payment centers now in use employ an array of technologies to automate the process of receiving, posting, and disbursing child support payments. Although many of these technologies are relatively new to the public sector, most have been in wide use by banks and creditors for years.

Relationship to federally certified computer systems

The current move toward statewide computer systems for child support administration complements the payment center approach. The federal Family Support Act of 1988 included a requirement that statewide child support systems be implemented by 1995. As a result, most states are either currently enhancing existing statewide computer systems or developing new ones. Many of the computer requirements of a payment center are already incorporated into the certification requirements for the statewide IV-D systems.

Any additional computer requirements for a payment center, such as the ability to interface with banking entities, should also be included during statewide system development. Since these systems are being built largely with federal funds, it is possible for states to secure financial support for necessary enhancements if they are included in the overall functional design. To do so, states must include central receipting development in all relevant federally required Advanced Planning Document and preapproval processes.

Three factors—increasing payment processing loads, wider use of wage withholding, and the need to control administrative costs in the IV-D program—are combining to make the trend toward centralized processing an inevitable one. In this chapter, these forces are explored in greater detail.

Growing Payment Processing Loads

One of the key challenges facing child support enforcement agencies is providing service to a rising number of cases without substantially increasing operating costs. The increase in program participation can be largely attributed to two factors.

Increasing acceptance of program

The child support enforcement program is increasingly seen not as just another public assistance program, but as an effective method of collecting money on behalf of children, and, consequently, reducing public assistance costs. Also, increasing numbers of nonwelfare obligees are taking advantage of the services offered.

Increasing numbers of eligible children

At the same time, demographic forces are increasing the number of children for whom support is owed. Each passing year brings an increase in the number of children living with one parent and the number of children living with never-married parents, as demonstrated in the table below.³

Status of Children Under Age 18

	<u>1970</u>	<u>1988</u>
Percent living with one parent	12.9	26.3
Percent living with never-married parent	0.9	7.3

Wage Withholding

For some time now, the concept of automatically deducting the child support payment from the obligor's paycheck and transferring it to the agency (either through a check or an electronic transfer) has been successfully used to address payment arrearages. Based on the success of that approach, the federal Family Support Act of 1988 included a provision that requires states to institute income withholding for all new or modified IV-D cases in November of 1990 and for all other new child support cases in January of 1994.

The effect on payment processing

The immediate and mandatory withholding requirements will rapidly increase the volume of wage-withheld IV-D payments to public agencies. Since non-IV-D payments are generally not made through public agencies at this time, their potential addition to the processing load may be significant. Centralization and related automation will help to accommodate this additional workload.

In addition, the requirement to provide immediate withholding for non-IV-D obligors will create increased pressure from employers to be able to make those payments through a single public agency. (In this

document, discussion of non-IV-D cases does not imply making them into IV-D cases. Instead, it recognizes that many states require all types of child support to be paid through a single public entity.)

The effect on the employer

Increased wage withholding for child support will represent a significant challenge to employers. As an example, an obligor who is employed by one company can owe support to several obligees living in different local IV-D jurisdictions. When the amount to be withheld exceeds the legal limits on the percentage of wages that can be withheld, the employer is forced to determine how much of the amount withheld must be transferred (usually in the form of a check) to which agency.

This process will represent an additional workload for employers, especially when the non-IV-D cases are added in 1994. Allowing employers to send these payments to a single location, particularly one that can determine how to divide the limited funds, can significantly ease the burden on employers. (Again, non-IV-D cases are discussed here because in many states a single entity processes all types of child support payments.)

Why centralized processing helps the employer

Centralized processing is more advantageous to employers. They can make a single distribution to a central entity which can automatically attribute the payment to the proper set of obligors.

Controlling Administrative Costs

As mentioned before, we now spend over \$200 million annually nationwide just on the process of collecting and distributing child support payments. Although it is necessary to spend some amount of money on this critical task, it is clearly an excellent area in which to control costs. Unlike other functions of the IV-D program, payment processing itself does not help to collect more funds on behalf of children. Beyond ensuring speed and accuracy, there is no advantage to spending more on the payment process than is absolutely necessary.

Centralized processing is an attractive way to control costs for five reasons.

*Central Receipting:
Controlling Costs by Increasing Volume*

It reduces the cost per transaction

The best way to lower and control the cost of payment processing is to reduce the cost per transaction. This can be accomplished by increasing volume and by introducing new technology designed to handle that volume in a cost-effective manner.

It creates volume to support technology

When the payments from several jurisdictions are consolidated, the resulting volume will support much more sophisticated technologies. Machines like automatic envelope openers, remittance processors, and voice response units are designed to handle large numbers of transactions each day.

It automates the impersonal part of IV-D

Many aspects of the IV-D program involve highly personal and sensitive family issues. These functions are best handled locally by highly trained staff members who are familiar with the characteristics of each case. This is not true of payment processing. Where a check is sent, how it is processed, and how the money is disbursed are not matters that require a personal touch. As long as payment processing is done quickly and accurately, the method is probably not important to the obligee and obligor.

It eliminates double receipting of AFDC support payments

When the child support payment is processed locally, then forwarded to the AFDC agency for centralized processing, a common practice today, double work is created.

It can increase federal incentive payments

Because centralized processing provides an easy, efficient method for payment processing, it can increase collections-to-expenditure ratios, upon which rest the size of federal incentive payments. Higher federal incentive payments act as another counter to rising administrative costs.

Chapter 2

Maximizing Volume by Including Non-IV-D Cases

As mentioned before, the mandated wage withholding requirement for all child support payments are likely to bring many more obligees and obligors under the processing umbrella of some states in 1994 because existing public agencies may be asked to receipt and distribute these additional payments. Many jurisdictions are already moving toward centralized processing of all child support payments in anticipation of this event. One advantage of this consolidated approach is that adding non-IV-D cases can often raise processing volumes to a level that can support an investment in advanced technology. (As mentioned before, discussion of non-IV-D cases does not imply a movement toward making these into IV-D cases but instead recognizes that many states already require all types of child support to be paid through public entities, often the same organizations doing payment processing for IV-D cases.)

Objections to Centralized Processing

Objections to payment centers are most likely to come from three main sources. The first two objections will probably be expressed only if payments for non-IV-D cases are processed by the IV-D payment center.

Non-IV-D cases

An increasing number of non-IV-D cases are likely to have child support payments processed through a public agency because of the upcoming wage withholding requirements. Since those who comprise these cases may have deliberately chosen not to receive IV-D services, they may feel that centralized processing is an unnecessary intrusion of the government into what they consider a private family matter. On the other hand, once wage withholding becomes the norm, these obligors and obligees may prefer the efficiency of payment processing through a payment center.

In addition, non-IV-D obligees who were previously receiving payments directly from the obligor may object to the slight delay that occurs when the payment passes through a processing center. In this instance, they should be made aware that mandatory wage withholding will cause an inevitable trend in this direction in any event, and may, in fact, result in faster and more reliable receipt of payments. Careful outreach activities can help to minimize these objections.

Budgeting authorities

Another objection to centralized processing of all child support (including non-IV-D) is the fact that federal reimbursement for IV-D program administrative costs will not apply to the non-IV-D cases gathered into the processing loop. Some agencies are considering charging non-IV-D cases a very small fee to defray the overhead of processing their payments.

Local Receipting Entities

Centralization inevitably moves work from local offices to a larger, centrally located organization. Despite the value of the efficiencies gained through centralization, the potential loss of local jobs is distressing and must be addressed. However, this redistribution of responsibilities may actually benefit the local agency or court because the staff members now occupied with payment processing will be free to pursue enforcement. Thus, local IV-D organizations will be able to avoid the cost of additional staff to increase enforcement efforts.

The Effect on Processing Costs

Two studies provide information about the effect that centralized processing can have on administrative costs. One study examined transaction costs in a high-volume, statewide, centralized child support collection and disbursement center.⁶ The second study looked at nearly one hundred local receipting and disbursing units of varying size and sophistication. The results indicate that centralized processing can reduce processing costs by about 65 percent⁷, and it is anticipated that the savings will be much greater as time goes on.

Average Transaction Processing Cost: Single Payment and Disbursement

Centralized	\$3.00 ⁸
Local	\$8.36

Chapter 2

Increased Speed and Accuracy

An advantage of centralized processing that is more difficult to quantify is the increase in speed and accuracy of processing. The process is faster because machines like envelope openers and microfilming devices automate time-consuming manual operations. Centralized processing is more accurate because computer scanning is used to replace or supplement much of the manual data entry that is notoriously subject to clerical error.

Current Implementations

The following states have already implemented payment centers for at least some types of cases: Iowa, Missouri, Oregon, Vermont, Virginia, and Washington. In addition, a number of regional groups and large counties (most notably Wayne County, Michigan) are using the technologies generally found in centralized processing operations.

Summary

Centralized processing is an inevitable trend because it allows even very small jurisdictions to enjoy the economies and efficiencies of volume payment processing. By joining together, individual agencies can actually reduce the cost of processing each payment. Centralization will provide the processing capacity to accommodate steadily growing caseloads. It will also facilitate handling of income withholding transactions initiated by employers.

CHAPTER 3

REMITTANCE PROCESSING AND CHILD SUPPORT

A New Application of an Established Technology

The term "remittance processing" describes the series of steps taken to accept a payment, allocate it to the proper account, and prepare information for the entity that will disburse that payment to one or more parties. In the financial world, remittance processing is used by banks and credit card companies to process loan repayments, and by large corporations and utility companies to process receivables.

In the child support enforcement world, remittance processing is used in a similar manner. A payment is received, opened, examined (by a machine and/or a human), and allocated to the proper obligation.

The application of remittance processing to child support payments differs from its use in the financial world in two ways:

(1) Multiple disbursements from a single payment

In the financial world, one payment is typically associated with only one disbursement (e.g., one loan payment is applied to one account number). In contrast, a single support payment from an obligor might be allocated to several obligees.

(2) Allocation of single payment from employer

There is an increasing trend toward automatic withholding of child support payments from the obligor's paycheck. In this situation, the payment center may receive a single amount from an employer that includes support payments being made by several obligors working at that particular company. When this occurs, remittance processing also includes a front-end step to "unbundle" the amount sent by the employer.

It is important to note that, although the steps in payment processing are referred to collectively as "remittance processing," there is also a piece of equipment used in this process called a "remittance processor."

For clarity's sake, in this document we refer to the equipment as the "remittance processing machine."

**Use in
Centralized
Processing**

Every payment center is responsible for receiving and processing child support payments. Some centers are large enough to warrant acquiring their own remittance processing machines so they can perform the steps in remittance processing themselves. Other centers have some or most of their payments sent to a bank which performs the remittance processing steps and sends the resulting information to the center for further handling.

**The Steps in
Remittance
Processing**

Although many variations are possible, remittance processing generally includes these steps:

Automated opening of envelopes

This step involves a specialized machine that slits open each envelope as it is received and scans the envelope to make certain that it is empty after the contents are removed.

Scanning of coupons or bills

The contents of each envelope—a check and a bill or coupon—are removed. The bill or coupon, which contains a precoded account number, is electronically scanned by the remittance processing machine. The account number is sometimes printed on the bill or coupon using magnetic ink. In other cases, the remittance processing machine simply "reads" the account number printed in regular ink.

Entry of payment information

One of two steps follows. Either the machine reads and records the amount of the check, or an operator uses a keyboard to enter the amount. This information, along with the account number, are stored in the remittance processing machine's memory.

Recording of batch information

Along with the payment amount and account number, the machine stores a batch number for the series of checks being processed and the sequential position of each check in that batch. This information is used for auditing purposes and to identify the source of problems when accounts cannot be balanced.

Encoding

This step involves printing the amount of each check on the front of the check. Banks charge less to process each check if the amount is preprinted in this manner.

Endorsing

In this step the bank account to which the check is to be deposited is preprinted on the reverse side of the check.

Microfilming

As each check passes through the machine, it is microfilmed. The microfilm is used as an on-site record of all the checks handled by the payment center and is referenced if a question arises over a particular payment.

Preparation of bank deposit

The remittance processing machine then prints a paper tape that contains the check sequence and account information for the batch just processed. This tape is used when depositing the money at a bank. A separate audit tape records all transactions, including canceled entries.

**Remittance
Processing
Equipment**

The equipment necessary for a fully automated payment center can cost between \$75,000 and \$100,000 or more. Here are the hardware components that are needed:

Envelope opener

This machine slits open envelopes that are presorted by size. Some envelope-opening machines also have the capability to reexamine opened, emptied envelopes to verify that they do not contain additional checks or payment stubs. This can be done in one of two ways. A less expensive model measures the thickness of the opened envelope to determine whether it is empty. A more expensive model shines light through the envelope to verify that all the contents have been removed. Given the volume of incoming mail received at a payment center, an envelope opener is an important hardware component.

Remittance processing machine

The remittance processing machine is the key hardware component at a payment center. This machine has the ability to scan each check and payment stub that is inserted into it. The information typically scanned includes obligor/obligee account number, obligor identification number, and the amount (to verify that the key-entered amount equals the amount electronically read from the stub). The remittance processing machine can also read the magnetically encoded data on the front of the check indicating the obligor's bank and the checking account number. This latter data can be stored and used for locate purposes if the obligor stops paying.

All of this information is recorded in the machine's memory for later transfer (electronically or through use of off-line storage media like diskettes, tape, or CD-ROM) to the disbursement computer, where posting and distribution occurs as if the receipts were manually entered. The remittance processing machine then encodes, endorses, and microfilms the coupon and the check.

Microfilm reader

The microfilm reader is needed to read and print copies of the microfilm created by the remittance processor. For example, if an obligor questions whether his or her account was credited with the proper amount, the microfilm of the physical check can be viewed and printed.

**In-house
Processing
versus
Lock-box**

An agency planning to implement an advanced remittance processing system must decide whether the hardware investment is supported by the volume of payments anticipated. An alternative to an in-house remittance processing operation is to contract with a local bank to provide what is called a "lock-box" service.

How a lock-box works

When a bank provides lock-box services, the following steps apply:

- Obligor are instructed to send checks with coupons to a post office box that belongs to the bank.
- The bank picks up the checks, runs them through a bank-owned remittance processing machine, and deposits the funds.
- A daily tape describing the payments received is prepared by the bank and given to the agency.
- Any checks received with correspondence or without an account number are delivered daily to the agency for special processing outside the lock-box process.

The cost of the lock-box option

Bank lock-boxes typically charge a basic monthly fee plus a per-transaction fee. Choosing between in-house remittance processing and a bank lock-box should involve a comparison of the relative costs.

For example, suppose that a bank charges a \$125 basic monthly fee plus an average of \$.125 per transaction. If the monthly volume of payments to be processed is 25,000, the monthly cost of a lock-box system would be \$3,250 per month, or \$39,000 per year.

By comparison, the annual operating cost of in-house remittance processing might be about \$70,000. (This figure includes supplies, depreciation, staff costs, and other miscellaneous items.) Using the sample transaction volumes above, the lock-box makes more sense because the same expenditure will support nearly two years of lock-box operations versus one year of in-house operation.

Other benefits of the lock-box approach

There are non-monetary benefits to the lock-box option as well:

- ☒ Large banks provide lock-box services to many clients with huge payment volumes, like telephone companies. Banks are therefore very knowledgeable about remittance processing and are capable of handling large volumes on a daily basis.
- ☒ Using a lock-box allows the agency to avoid a large up-front capital expenditure.
- ☒ Some agencies fear that failure of a single remittance processing machine will cripple their operation and purchase two machines for the sake of backup. This approach almost doubles the capital expenditure. Banks typically have backup systems in place already, given the large volume of transactions they must process.

The flexibility of an in-house approach

There is, however, a major advantage to in-house remittance processing. Because child support payments processed through a lock-box share the equipment used by other bank clients, the machines involved must be configured in a generic manner. That is, they must be instructed to handle special situations in a way that is acceptable to most bank clients.

This means that it will be difficult for the agency to program the remittance processing machine to handle special situations. For example, payments submitted by obligors with a history of bad checks may need extra verification. If the remittance processing machine is in-house, the agency can instruct it to separate payments from these obligors for this purpose.

An additional consideration is the percentage of payments that will come from employers who are forwarding support payments for more than one employee. It is unlikely that the bank remittance processor will be able to be programmed to handle these payments in an automated manner. The same problem occurs when a single obligor pays for multiple support obligations with a single check. When this occurs, it is necessary to determine how to allocate the payment.

Thus, if an agency has sufficient volume to justify the purchase of in-house equipment, the decision about using a lock-box must be based on the relative importance of the control and flexibility offered by an in-house system.

**Other
Decisions**

Coupon versus bill

Advanced remittance processing systems cannot operate effectively unless a very high percentage of obligors include a precoded coupon or bill with each payment.

There are two approaches to obtaining precoded payment stubs. A coupon book can be sent annually or semiannually to each obligor. A coupon book includes a coupon to be sent in with each payment for the next six or twelve months.

Alternatively, a monthly bill (which includes a precoded payment stub) can be sent periodically (monthly, biweekly, or weekly) to the obligor who returns it with the payment. This approach is more effective, for several reasons:

- Monthly bills are less likely to be lost than a coupon book that is received only once or twice a year.
- Monthly bills can also include current information about the amount due that month, including arrearage balances and changes related to periodic order modifications.
- Monthly bills provide a frequent and consistent prompt to the obligor that may in itself significantly increase collections.

The drawback of a monthly bill is that it is more expensive. A coupon book costs from \$1.00 to \$1.50 to produce and mail annually, compared to an annual cost of about \$3.60 for monthly bills.

Other options that have been tried include mailing of self-adhesive stickers that are pre-coded with an account number. The obligor attaches one of these stickers to each check as it is sent in to the agency.

Source of coupon or bill

Many agencies have access to printing and design facilities in-house. Each agency will have to determine whether it is better to produce coupon books (or invoices) in-house or to have them produced by a firm that specializes in this type of work. The large volume of items printed by outside firms allows them to purchase the special equipment needed to produce documents with a highly professional and "official" appearance. On the other hand, many in-house facilities have the capacity to produce excellent printed materials.

One aspect of the implementation that is likely to influence this decision is the use of special magnetic ink that is required for scanning by some remittance processing machines. This capability may not be offered by in-house facilities.

It is also important to note that the federally mandated capabilities of certified statewide IV-D systems include the ability to produce a bill. However, the certification requirements do not specify where the hardcopy bill must be printed. Thus, the electronic information to be printed on a bill (and indeed the format of the bill itself) could be created within the statewide IV-D system, captured in a file, and transferred (via diskette, tape, or CD-ROM) to an outside printing entity.

Check holds

Any agency that collects and disburses child support payments must decide whether to disburse funds to obligees before verifying that the obligor's check is good. Many jurisdictions hold funds for five to fifteen days before disbursement to cover this problem.

The drawback of holding the disbursements is that all obligees are deprived of the use of their support payments for an additional period of time, even though the number of bad checks is generally a small minority. (Note: Holding the disbursement also makes it more difficult to comply with federal regulations regarding the timeliness of distribution.) However, if the check is not covered prior to disbursement, the agency has a loss that it must recover.

As mentioned previously, remittance processors can address this problem by separating out checks from obligors with a history of bad checks so they can receive special treatment. All other checks can be immediately processed and the funds disbursed to the obligee without delay.

It is worth mentioning that, although the percentage varies from jurisdiction to jurisdiction, the rate of bad checks is very low for most agencies. It is estimated that only about 0.2 percent of all child support payments are, on average, paid with a bad check. Furthermore, studies tell us that the majority of bad checks are covered within a matter of days.⁷

**Employer
Wage
Withholding**

Two issues related to employer wage withholding require additional planning when implementing central receipting: how to implement the use of payment stubs and how to handle payments made by a single employer for multiple obligors.

Employer use of payment stubs

When wage withholding was first investigated for child support payments through payment centers, it was thought that most employers would be submitting payments for many obligors each month. Experimentation in the field has shown that the opposite is true. The majority of employers withhold child support payments for only one obligor. (This is particularly true in jurisdictions with many small and medium-sized businesses.)

When a payment is submitted for only a few employees, it makes sense to request that the employer return a precoded payment stub with the payment. If this is done, employer-issued payments can be processed as easily as other receipts. If a payment stub is not used by the employer, it will be necessary to manually examine each payment and match it to the proper obligor.

Processing of multiple payments

As previously described, there are two types of payments submitted by employers: those that include the support payments withheld from a

single obligor and those that include support payments withheld from multiple obligors (referred to hereafter as "multiples").

In a multiples situation, special handling is required to determine which obligors should be credited with payments. This allocation can be made manually or using an automated function.

When multiples are processed manually, an agency staff member must examine each employer check and enter on the keyboard of the remittance processor the account number (or other appropriate tracking number) and amount associated with each of the obligors. Ideally, this would be done by referencing a listing with account numbers provided by the employer with the check. However, if the employer is unable to prepare this type of list, the account number must be drawn from a printed agency listing or an on-line lookup to the agency's computer database.

There are two automated approaches:

1. Automated lookup of account number

In this scenario, the same manual entry of amount and account number would apply, but the time-consuming "look up" process for the tracking number is automated. A file is built, either on the child support mainframe or on a separate personal computer, that contains a unique identifier for each employer and the name and account number of each obligor associated with that employer. Upon entry of the employer identifier, the computer system displays the list of obligors and account numbers that are associated with the payment being processed. In this situation, it is necessary to design a process to add new employers to the data base and to revise employer/obligor associations as they change.

2. Employer uses multiple payment stubs

Ideally, the employer submitting a payment for multiple obligors would include with the check a precoded payment stub for each obligor. This would make it possible to use the scanning capabilities of the remittance processing machine to automatically allocate the single employer payment to the proper obligors. It would not be necessary to look up an account number because that information

would be preprinted on the payment stub. However, employers withholding for large numbers of obligors would not be able to track and sort stubs for all these obligors.

CHAPTER 4

APPLICATIONS OF EFT IN CHILD SUPPORT PAYMENT PROCESSING

A Definition of EFT

Electronic funds transfer (EFT) is a term that describes the transfer of funds from one account and/or institution to another through electronically recorded authorizations and notifications. When EFT is used, separate paper documents such as checks and deposit slips notifying the various parties of the transaction are not needed.

An example of EFT use in another industry is found in the growing practice of periodically automatically withdrawing from a payor account the amounts owed to insurance companies. This process saves the customer the time and trouble of writing a check and saves the company the expense of processing the incoming check.

Because EFT has been in widespread use throughout the banking industry for many years, the technologies and standards to make this a reliable method of transacting business have evolved to a very sophisticated level. In the child support enforcement area, EFT is being explored as a means of simplifying and speeding up the process of receiving and disbursing support payments.

In this chapter, the chief uses of EFT for child support are described. In Chapter 5, the technologies and services that are used to activate EFT are described in greater detail, although many of them are briefly mentioned here.

EFT and Payment Centers

Implementing EFT within the context of a payment center is an attractive idea because the payment center, by definition, creates the volume levels needed to make EFT most cost effective. This chapter describes the many potential uses of EFT for child support. EFT is a critical part of any discussion of centralized processing because it is a logical extension of the concept of using technology and centralization to control administrative costs and streamline processing. Not all payment centers use EFT at this time, but all are likely to move in that direction in this decade. On the other hand, it is entirely possible for a smaller, local jurisdiction to implement some of the EFT approaches

described in this chapter on its own without the establishment of a payment center.

**Direct
Deposit of
Income
Withholding**

As mentioned before, a growing number of child support payments are being made in the form of income withheld from employee paychecks. Since many employers are already capable of transferring all or part of a payroll to various banks, EFT is now being tested as a method of making child support payments on behalf of the obligor.

The procedure

To perform this process, the employer adds to the existing direct deposit system, or to a similar system, an additional account number for the outgoing amount and the various identifiers assigned to the obligor and obligee by the agency.

Each time payroll is processed, the employer creates an automated clearinghouse and/or federal reserve (ACH) file as usual. The employer's bank then initiates an ACH transmission that credits the proper support payment amount either to a special agency bank account established for that purpose, or to an existing account. The payment center is then notified through a daily printed bank statement or electronic tape of the payment made for each obligor and the obligor/obligee account number.

Processing Issues

When direct deposit is implemented, it is necessary to make certain decisions about procedural issues.

Payment distribution method. One issue to resolve is the manner in which payments from one obligor to more than one obligee are allocated when made through direct deposit by an employer. If the employer knows how much is owed to each obligee, the employer can specify two amounts with two different case numbers. If the employer does not know how much is owed to each obligee or does not wish to take this additional step, the employer will specify one amount for multiple case numbers.

Electronic Funds Transfer
Applications for Child Support Payment Processing

In the latter instance, it will be the agency's responsibility, as it is in the paper-based processes, to allocate the single deposit among multiple cases. (Note: While federal regulations are very specific in terms of how to distribute payments made for an individual case, they are largely silent on the issue of dividing payments between multiple cases (i.e. obligees) with claims to the payment.) The payment center must develop specific rules for making this allocation. In one state this issue was addressed using the following rules:

- Apply payment first to current support for all associated cases
- If payment is not sufficient to pay all current support in full, allocate it on a proportional basis
- If payment is sufficient to cover all current support and some funds remain, divide the additional amount between the cases and apply it to arrearages
- If the extra amount is not sufficient to pay all arrearages, allocate it on a proportional basis

Format of verification from bank. It is also necessary to determine how the bank will notify the agency that support deposits have been made by an employer on behalf of an obligor. Most banks will be able to provide either an electronic tape of the deposits or a paper listing showing the obligors and amounts deposited. Regular bank statements might suffice, but they may lack sufficient detail or arrive too slowly.

Benefits

The primary benefit of this approach for employers is that it eliminates the time and expense of preparing and sending a check and obligor listing to the payment center each time payroll is processed. For many employers, direct deposit of income withholding can be piggy-backed onto an existing direct deposit payroll system. It will also be extremely helpful for employers to be able to make withholding payments to multiple local child support jurisdictions using a single process rather than sending separate checks. The payment center benefits because it

is not necessary to physically process and deposit checks. Direct deposit of income withholding also benefits the obligee because the payment is available sooner, given the elimination of the delay when checks are mailed by employers to the payment center.

National standards for direct deposit

The federal Office of Child Support Enforcement (OCSE) is currently developing national standards to govern the process of direct deposit of child support payments. They are being assisted in this work by the National Automated Clearinghouse Association (NACHA) and the federal Department of the Treasury.

National standards for direct deposit will make it easier for employers, banks, and child support agencies to implement wage withholding by providing basic guidelines for how the transfer of funds will be accomplished. Employers in particular will benefit because they will be able to use a single method to prepare and send wage withholding to more than one payment center.

These standards will focus on the format and position of data within electronic files used to transfer funds. Existing NACHA rules for other types of direct deposit payments will be used as a starting point. The use of NACHA rules will also lend credibility to the wage withholding concept for child support, since banks and most employers are already using these rules for other functions.

Automatic Withdrawals from Checking

This EFT application is similar to the one described for direct deposit of support payments by employers, but applies when a single obligor is making his or her own payment electronically. It differs from employers' direct deposit in that the transfer of money is initiated not by the employer from the employer's account, but by the payment center from the obligor's account.

The procedure

In this situation, the obligor signs a one-time authorization to have the child support payment automatically withdrawn from his or her checking account either monthly, bimonthly, or weekly. Using that authorization, the payment center initiates withdrawals by submitting a computer tape

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to a bank that indicates the amount to be withdrawn from each obligor's account and the destination account number (i.e., the agency's bank account). At the same time, the child support agency's computer creates an entry indicating that the funds are available to the obligee. The agency's system total for the amount withdrawn must later be reconciled to the bank's statement of automatic withdrawals.

As mentioned before, once the automatic withdrawal is authorized, it is the responsibility of the agency to initiate the transfer of funds by sending an electronic tape of the obligors and amounts to the bank at regular intervals. The most efficient way to accomplish this process is to automate it. If the main data processing system can be adapted to create an electronic file of withdrawals, this is the most efficient method. However, it is also possible to develop a microcomputer system to track the automatic withdrawal cases and create an initiation tape.

Ongoing costs for automatic withdrawal are about \$150 per month for handling tapes and about \$0.06 per automatic withdrawal.

Benefits and obstacles

The primary benefit of this process is the reduced number of checks that must be processed by the payment center. The obligor no longer has to write a check. Obligees receive their payments sooner, given that the agency generally receives automatic withdrawal funds within 48 hours of the initiated transaction.

One significant obstacle to this approach is obtaining the adequate voluntary participation among obligors needed to achieve cost effectiveness. Many obligors seem to be more comfortable with a paper check transfer, particularly if they cannot be sure that their account will contain sufficient funds to cover the monthly support transfer.

Obligor- Initiated Electronic Transfers

Although it is similar to automatic withdrawals of child support, this approach takes advantage of the speed of electronic transfers while retaining obligors control over the timing and amounts of payments. Under this approach, the obligor uses one of two automated methods to tell the bank that the payment should be transferred:

Automated teller machine (ATM)

In this scenario, the obligor uses an ATM (cash machine) card to instruct the bank to transfer money from a checking account to a support account. The ATM processor then provides the agency with information about the deposits.

Voice response unit (VRU)

In this scenario, the obligor calls a designated number and through a combination of voice messaging and entry of numbers on the telephone key pad, authorizes transfer of money from a checking account to a support account through an electronic funds transfer. (VRUs have the additional capacity to provide recorded messages explaining program rules and procedures, and could allow obligors and obligees access to account balances.)

Both of these solutions—which can, incidently, be used together—offer round-the-clock convenience for the obligor. He or she can retain control of the timing of the payment, but can also authorize the payment at any time and avoid the inconvenience of sending a check. (Further description of the ATM and VRU technologies is provided in the next chapter.)

Credit Card Payments

Some agencies are now accepting credit cards (and their close relatives, debit cards) to make payments for child support. This approach has the significant advantage of offering obligors another convenient means of making payments. It also offers the obligor a method of payment that can be used when he or she has insufficient funds to cover the support payment in a given month.

The procedure

Credit/debit card payments can be accepted in the form of walk-in payments in the same manner that credit cards are used to make purchases at a store. Agencies can also be authorized by obligors to automatically charge support payments to a specified credit/debit card. In either approach, the agency can submit an electronic file or paper transmittal of account numbers and amounts to the bank or card

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processor to request the transfer of funds. The bank would process the file and notify the agency that the funds had been transferred.

The benefits

If the walk-in option is used, the obligor retains control over the payment. When the automatic charge option is used, the agency gains the additional advantage of initiating the transfer of funds. In both cases, the agency and obligee take advantage of immediately available funds without the overhead involved in processing a check.

The convenience factor

Credit/debit cards are a widely accepted method of payment in the United States. More than \$223 billion in transactions were processed using credit cards in 1987. Ownership of credit cards increased from 539 million in 1980 to 837 million in 1987. Odds are excellent that a significant percentage of child support obligors own credit cards. In fact, in some retail situations, such as department stores and appliance centers, credit cards are now used as a payment method more often than checks. It is likely that many obligors would be willing to use credit cards to pay support obligations. Many jurisdictions allow use of credit cards in the belief that it increases the likelihood that obligors will pay off large arrearages in one payment.

Direct Deposit to Obligor's Checking Account

At the other end of the payment processing cycle is the matter of disbursement. One method of transferring funds to the obligee, direct deposit, introduces the advantages of EFT to the disbursement process.

The procedure

The disbursing entity (which may or may not be the payment center) prepares a daily computer tape that is used by the bank to credit each obligee's bank account for the amount of the payment previously received. Direct deposits are generally available within 24 to 48 hours after the tape is submitted.

Benefits

The most obvious benefit is that the agency need not prepare and mail checks to obligees, a process which represents a significant cost. Studies in Iowa and Nebraska indicated that it cost at least \$0.26 to process each warrant. Direct deposit costs were only about \$0.06 per transaction plus a monthly tape processing cost of about \$150. An additional and important benefit of direct deposit of support is that obligees can have access to their money sooner.

Notification Issues

The remaining step in this process is notifying the obligee that the funds are available. Since no paper check arrives and the payment may not come at specific intervals, some method is needed to inform the obligee. This can be handled in several ways:

1. Send written notification

Some agencies notify obligees that a deposit has been made by sending a letter or notice. This approach has the obvious disadvantage of creating additional costs in the form of printing and postage. It also creates an unnecessary delay between the transfer of the funds and knowledge of that transfer.

2. Use ATM machine

If the obligee is provided with an ATM card keyed to the account into which the funds will be transferred, it will be possible to verify a deposit and withdraw funds from any associated ATM, 24 hours per day.

3. Notification through voice response

A voice response unit can be used in two ways to give obligees notice that child support payments have been deposited into an account. First, in a passive use, the obligee could be instructed to call a designated number to hear the amount and date of the last deposit. Second, in an active use, some voice response units can be programmed to automatically place calls to designated numbers and speak a recorded message. In this application, a file of obligees

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would be loaded onto the voice response unit which would dial the appropriate number and speak the notice of deposit. (Note: States should ensure that they comply with all relevant federally required preapproval processes when procuring a voice response unit.)

**Check
Verification
Upon
Acceptance**

Many agencies provide payment windows to allow obligors to make support payments in person, often in the form of a check. A group of technologies called "point-of-sale services" give agency staff members a method of verifying the validity of those checks before they are accepted.

To use point-of-sale (POS) verification, the agency subscribes to one or more services that maintain a database of individuals who have current records of outstanding "bad" checks. Some of the more expensive services guarantee that, if the individual being checked is not found in the database, the service will cover the check if a bank dishonors it. (POS services and devices are described in more detail in the next chapter.)

**Debit Card
Payments**

The debit card, also referred to as a cash card or an asset card, is another method for making child support payments. Although debit cards appear to the collecting entity (in this case, the agency) as if they were credit cards, it is useful to know how the behind-the-scenes processing of debit card payments differs.

A debit card is physically similar to a credit card, but it draws actual funds from a checking or savings account when used rather than creating a charge in a credit account. In banking terminology, the debit card causes a "direct asset reduction" while use of a credit card creates a "liability for debt."

Debit cards are much rarer than credit cards, but their use is growing. A 1987 study of retail purchases indicates that 2.3 percent of all purchases were made using credit cards, while 0.04 percent of purchases were made using debit cards. However, debit cards are also becoming more widely available. In 1980, only two million Americans had debit cards. In 1987, that number rose to eight million.

CHAPTER 5

THE TECHNOLOGIES AND SERVICES SUPPORTING EFT

This chapter describes the major technologies and organizational structures that make EFT possible. This background information will help agencies considering the use of EFT for child support payment processing learn more about what is involved in implementing the concept.

The ACH: Standards and Procedures

The automated clearinghouse (ACH) was mentioned in the description of direct deposit of payroll in Chapter 4. The ACH actually plays an important role in several of the EFT applications for child support payment.

A definition

An ACH is an organization formed by financial institutions to facilitate the exchange of electronic transactions. In an ACH, payments are made by transferring electronic messages rather than physical documents.

Structure

There are now about 42 ACHs in operation throughout the country. Most of them are run by the twelve Federal Reserve Banks. The four ACHs operated outside the Federal Reserve System include the New York ACH, the California ACH, the Arizona ACH, and the Hawaii ACH. The overall system now serves 22,000 banks, thrifts, and credit unions. There is a national association of the ACHs (NACHA) that sets rules to ensure smooth interactions between member ACHs.

Typical uses

Government uses of EFT, facilitated by ACHs, include direct deposit of Social Security and other benefits, and direct deposit of some federal and military salaries. Corporations use ACHs to perform direct deposits of wages, to collect premiums and other preauthorized payments, and to collect daily receipts from local banks. Individuals can use some

ACHs to authorize payment of a variety of bills, including mortgages, utilities, and telephone charges. Although government uses originally accounted for the majority of ACH transactions, corporate participation has grown to more than 50 percent of the total.

Typical Processing Flow

The steps below outline the events that occur within an ACH when a child support payment is made through automatic withdrawal from the obligor's account.

- 1. Agency obtains authorizations**

The agency first obtains written authorizations from the obligor and, if appropriate, the obligee agreeing that electronic transfers will be used to withdraw and deposit child support payments.

- 2. Agency creates file of transfers**

The agency then creates a file to notify the originating bank (the bank holding the accounts from which payments will be transferred) about the transactions that are requested. The information contained in this file includes the obligor name, a transit/routing number for the destination bank, an obligor bank account number, type of account (checking or savings), and dollar amount.

- 3. Originating bank submits file to ACH**

Using the file provided by the agency, the originating bank prepares a similar electronic file and submits it to the ACH.

- 4. ACH verifies accuracy of file and transmits it**

The ACH examines the file submitted by the originating bank to ensure that it is in balance and in the proper format. It then transmits the payment information to the designated receiving banks.

- 5. Entries are validated and credited**

The receiving banks examine the information transmitted to them and deposit the support payments to the indicated account(s). The

destination for the funds is a single agency account. The agency, having originated the payment, reconciles the amount receipted to the withdrawals initiated, and credits the proper obligor or accounts.

Automated Teller Machines

The automated teller machine (ATM) is another mechanism for fund transfers that holds great promise for child support payments.

History of ATMs

ATMs were first introduced in 1971. By the end of 1980, over one half of all banks with over \$100 million in assets had at least one ATM. In a short time period, ATMs have become the most successful automated retail service offered by banks. More than 64,000 are in operation throughout the country.

Benefits

ATMs benefit both the consumer and the bank. The consumer gains in convenience and flexibility. The bank gains by allowing consumers to conduct complex banking transactions through a low-cost machine.

Structure

Banks can either operate their own ATM network as a proprietary service, or they can join a regionally or nationally distributed network service.

Proprietary service. To implement its own ATM network, a bank leases or buys ATMs, acquires or writes the necessary software, installs the system, and markets it. This approach allows the bank to tailor the system to the needs of its customers and to the unique characteristics of its own operation. The disadvantage is that a proprietary ATM service can be costly to operate without substantial usage volumes.

Regional ATM networks. In some areas, it is possible for multiple banks to use the ATM network established by a large financial institution. This approach reduces operating costs by increasing volume. However, the need to adhere to certain generic operating standards applies in a regionally shared system.

National ATM networks. There are several national ATM networks available to banks. The two major ones are Cirrus and Plus System, Inc. Cirrus is owned by MasterCard International. It services 3,000 banks in 48 states, interfaces with 23 communication networks, and handles transactions for 60 million cards. The Plus System ATM network is a joint venture with VISA U.S.A. There are 2,000 member banks in 48 states. The Plus System interfaces with regional networks and handles transactions for 65 million cards.

The cards

A plastic card is the key that unlocks the processing power of an ATM. Although there is still a great deal of variation in the format and type of card issued, standardization efforts are underway. That standardization will concentrate on the contents and format of the magnetic strips on the reverse of the card. This strip now comes in two- and four-track formats. Initially, only credit cards could be used to access ATMs. Now it is also possible to use bank-issued debit cards that trigger automatic withdrawals from accounts. The Personal Identification Number (PIN) that acts as a security check during ATM use is issued with the card and is usually four digits long.

Services offered

Depending on the bank and network used, ATMs offer a combination of the following services:

1. Cash withdrawal from checking, savings, or credit card account
2. Deposits to checking, savings, or other account
3. Transfer of funds among checking, savings, and credit card accounts
4. Payments that are deducted from checking or savings accounts, or are made by depositing a check at the ATM
5. Balance inquiry for checking, savings, or other accounts

Child Support Applications

ATMs have potential use in the following child support applications:

- Obligor can use an ATM deposit function to deposit support payments (by either check or cash) to the child support agency's account.
- Obligor can use ATMs to initiate automatic withdrawals from their accounts to pay child support.
- Obligees can use ATMs to withdraw child support amounts owed to them by the agency, rather than receive paper checks.

Use of ATMs for these functions requires lengthy planning and coordinating efforts with ACHs and ATM owners. The transaction costs (i.e., costs per use of ATM) may be prohibitive for these functions, unless combined with other public uses of ATMs, such as disbursement of welfare payments.

Voice Response Units

Voice response units or VRUs are specialized computers that allow callers who are using a touch-tone telephone to hear information stored on a computer. The VRU is typically installed between the telephone switching equipment and a host computer. After entering a valid security code, the caller listens to a spoken menu of options and selects a function by pressing a number on the telephone keypad. The VRU goes to the host, retrieves the requested information, and speaks it in digitized voice to the caller.

Uses in child support enforcement

VRUs have been in use in the banking industry for many years. Their primary use for child support—providing information to obligors and obligees about account balances—is remarkably similar to their general use in financial institutions. As mentioned in the prior chapter, an obligor can also use a voice response unit to authorize transfer of funds to make child support payments. Obligees can use it to verify that payments have been made and that funds are available for their use.

Agencies throughout the country are also investigating the use of VRUs to provide general information about IV-D program rules and eligibility. Some VRUs can also perform functions generally associated with telephone systems, like call transfers and call routing.

Benefits

When a VRU is installed, it is no longer necessary for agency staff members to answer routine calls about payment status. The processing load on the computer and telephone system is relieved by distributing calls more evenly through a 24-hour period. Program participants have a new and convenient route of access to information about their case. When VRUs are used to initiate automatic withdrawals, obligors gain the convenience of automatic withdrawal and retain control over the timing of payments.

Types of VRUs

There are two basic types of VRUs. One type is based on personal computer architecture. Each unit generally handles four incoming telephone lines and additional capacity is provided by adding additional units and linking them together into a local area network or LAN. The second type of VRU is built more like a telephone switch. When additional lines are needed, the basic machine is expanded.

The advantage of the first type is that the cost of initial implementation is lower, but growth may be relatively expensive since each unit carries a similar price tag. The second type is more expensive initially but is less expensive to upgrade. The decision about which VRU is best for a given agency should be based on estimates of call volumes both now and in the future.

Software for VRUs

Software packages designed to implement VRUs in the child support industry are available from several vendors. It is also possible to acquire a VRU that uses an "application generator" that allows the agency to design and program its own system.

Selecting a VRU

There are several crucial questions that must be answered when selecting a VRU:

1. Is it compatible with the key host computer?

In child support, this is usually the computer containing payment disbursement information. In situations where payment and case information are stored on two or more computers, it may be useful to look for a VRU that can be linked to several computers simultaneously.

2. What is the line capacity needed now and in the future?

This can be answered by keeping a record of calls into the agency for one month and by categorizing those calls to determine which ones can be answered by a VRU. Future caseload growth should also be considered.

3. Is the VRU compatible with the telephone system?

Also, are functions like call routing and call transfer needed by the agency?

VRU Cost

A basic four-line VRU can cost as little as \$25,000. Very large and sophisticated VRU systems in use for child support throughout the country have cost about \$125,000 to develop and implement. A wide range of possibilities exists between these two extremes. Although the initial investment for a VRU can be substantial, many jurisdictions have found that the value of off-loading staff more than supports the expense.

Point-of-sale Services

Point-of-sale (POS) is a term that refers to a group of services offered to retail merchants through a communications device used to receive and send information. POS devices can assist child support agencies in reducing the number of payments that are not covered by sufficient funds.

Check verification and guarantee

POS services can assist child support agencies by providing a mechanism for prechecking the validity of payments made by personal check as they are received. If the POS search finds that the obligor is likely to be submitting a bad payment, the agency can request that an alternate form of payment be used. POS technology is especially useful when the agency provides a "walk-up" method for payment, like a cashier's office or payment window.

Procedure

The main value of POS services is in verifying and/or guaranteeing checks used to pay support. Checks can be dishonored by banks for a number of reasons: insufficient funds, closed account, fraudulent execution, or existence of a stop payment. Using one or both of two services for check verification, the agency can guard against bank refusal of a check. The typical cost of verification and guarantee services can be from one to five percent of the face value of the check.

TeleCheck. This verification service provides "guarantee" services to subscribers, which means that any authorized check which is returned (except for stop payments) will be paid back in full to the subscriber. When a check is submitted to the agency, the obligor is compared to a database of individuals with a history of bad checks which have not been made good.

TeleCredit. This service allows retailers to choose between *verification* and *guarantee*. Verification involves only an examination of the database to determine whether the check is likely to be bad. Guarantee adds the same coverage as described for TeleCheck. However, TeleCredit stores more extensive information about obligor payment patterns and may refuse to provide the guarantee under a number of circumstances.

Credit Cards

As previously mentioned, credit cards are a promising method of obtaining child support payments. An agency considering this as a payment option should know a bit about the organization and procedures behind credit cards.

A definition

The term "credit card" refers to any card which enables the holder to obtain goods or services and defer payment for a period of time. Cards can be issued by financial institutions, oil companies, department stores, telephone companies, travel-related entities, general merchandisers, and other organizations. There are two variations: those that require payment in full at the close of each billing cycle and those that allow the user to carry a balance which incurs a finance charge.

The bankcard industry

By far the most common credit cards are MasterCard and VISA. Commonly referred to as "bankcards," these credit cards are issued by financial institutions. VISA is the older card, introduced in 1961 in the United States. MasterCard was introduced in 1967. By 1977, most financial institutions had joined both bankcard associations to offer consumers a choice of cards. In recent years, other cards have been introduced to the market, including the Discover and Choice cards.

Processing standards

The following key steps are generally taken when a credit card is used:

1. Authorization

An authorization is a verification that the card being used has not been reported as lost or stolen. The file containing this information is kept at a processing center and is updated by member banks. There are several ways to get an authorization from the processing center: by checking a printed list of stolen or lost cards, by calling the processing center and requesting an authorization, by using a VRU to access a computer file of bad cards, or by using a POS device to link directly into the processing center computer.

2. Draft capture

After authorization, the credit card number is written or imprinted on a carbon paper draft form, along with the amount being charged, the authorization code, and the customer's signature.

3. Information transmittal

The information can be sent to the bank or processing center either using paper copies or electronic transfer. When electronic transfer is used, a POS device scans the card and sends the information directly to the bank. The latter technique is much more accurate, timely, and safe.

The cost of accepting credit card payments

The fee an agency must pay to use credit card processing centers (which are often individual banks) is based on the fees charged by VISA and MasterCard, and the internal fixed operating costs. A number of factors influence the amount an agency will spend to implement credit card payments of child support:

- Whether the information is transmitted electronically, through a computer tape, or by paper
- The average amount per credit card use each month
- The authorization method used
- The minimum amount for authorization (the higher it is, the less expensive the processing)
- Equipment and supplies needed

CHAPTER 6

IMPLEMENTING A CHILD SUPPORT PAYMENT CENTER

A wide variety of activities must be undertaken to implement a payment center. They fall into these major categories, each of which is discussed in further detail in this chapter:

- Secure consensus and authorization for payment center

- Conduct policy analysis

- Design the payment center

- Conduct procedure analysis

- Write implementation plan

- Develop start-up and ongoing budget

- Plan for procurement

- Centralize payment information

- Schedule and design programming

- Conduct outreach activities

Many of these activities will occur simultaneously. For example, it will be necessary to have at least a preliminary design of the centralized processing functions finished in order to estimate start-up costs and secure the necessary funding approval. As mentioned in Chapter 2, many of these steps may need to be coordinated with the process of planning for development or modification of federally certified child support systems, since implementation of a payment center may require significant modifications.

Chapter 6

Authorization for Centralization The first steps in establishing a payment center are creating an awareness of the benefits and securing a legislative mandate to proceed. Funding will have to be available to cover implementation costs.

The material presented in Chapter 2 of this document describes the compelling and multiple factors that are prompting a move toward centralized processing throughout the country. This material can be used in discussions with legislators, state and county administrators, and community leaders.

It is particularly important to hold early discussions with the entity or entities (court, agency, or administrative division) that currently receive and process child support payments. Although the concept of centralization will ultimately benefit the child support program as a whole, the proposed restructuring of payment processing will have a significant impact on existing staff.

Whether a payment center is to be established on a regional (or a statewide) basis, it is particularly important to consult with all the appropriate county and local officials early on in the process.

Legal and Policy Analysis

Many policies and even laws will have to be adjusted to accommodate the new approach to payment processing. New procedures will have to be devised and documented.

An examination of the statutes and procedural guidelines governing child support payment processing is important at an early stage. Any changes or additions to existing laws must be requested as soon as possible.

There are several areas of law and procedure that may be effected by the centralized processing concept. Here are a few of the major areas:

Statutory authorization for center

It may be necessary and/or desirable to pass legislation specifying which kinds of child support must be paid to the payment center. If the state is already planning to have non-IV-D payments processed by the same organization that processes IV-D payments, it will also be necessary to specify how those cases will be handled, including the assessment of any

Implementing a Central Payment Registry

fees for the non-IV-D cases. (As stated before, this discussion does not imply that non-IV-D cases will become IV-D cases. However, since many States are considering a mandate that all child support case payments be made through a public entity, regardless of IV-D status, treatment of non-IV-D cases in the context of a payment center must be considered.)

Mandated support order processing time

It is critical that the payment center receive information about new or modified support orders as soon as possible after they are approved by the judicial authorities. If order information is delayed, the payment center may receive payments and not know how to properly allocate the funds. It is recommended that the courts be required by law to forward order information to the payment center within a matter of several days. The law might also specify exactly what type of information is to be forwarded, perhaps by designating that a form be used to standardize submittals.

Laws regarding check holds

Some states have a legal requirement that support payments not be disbursed until the obligor's check has cleared his or her bank. Research has shown that the incidence of bad checks is very low and that this requirement unfairly penalizes the majority of obligees by delaying their payments. The concept of check holds negates one of the primary advantages of centralized processing: fast turnaround. If such laws exist, they should be reexamined.

Notification requirements for wage withholding

Some states have cumbersome requirements for notifying the obligor of his or her right to object to withholding of child support payments from paychecks. It is suggested that these requirements be examined and streamlined as much as possible.

Prohibitions against fees

Federal reimbursement is not available for changes made purely to accommodate the processing of non-IV-D support payments. Some agencies are concerned about how to fund the increased overhead they

anticipate as a result of adding the non-IV-D payments. One suggestion is to charge a small (\$2 to \$3) monthly fee to non-IV-D obligors. There may be statutory prohibitions against this type of fee that must be removed before this type of case can be handled by the payment center. Again, discussion of non-IV-D cases does not imply a movement toward making these into IV-D cases but instead recognizes a trend toward requiring that all types of child support be paid through a public organization.

**Design of
the Payment
Center**

The exact structure and duties of the payment center must be determined. This step includes a determination of which EFT applications are to be implemented simultaneously and a close examination of existing and future computer system interfaces. Indeed, the most challenging step in implementing a payment center is determining how the registry will be structured and exactly what it will do. As described in this document, a multitude of options is available.

It can be assumed that all payment centers will issue bills or coupons, monitor the payment status of all IV-D cases, initiate wage withholding actions related to arrearages, and prepare the disbursement information needed by the entity that creates the warrants. Beyond this list, additional decisions must be made, many of which were discussed in Chapter 3.

1. Will remittance processing be done in-house? In many jurisdictions, the volume of payments may support the payment center concept but may not support the cost of in-house remittance processing equipment.
2. Which will be used, invoices or coupon booklets? Invoices are more expensive but may be more effective since they act as a regular reminder that a support payment is due.
3. How will employer payments for multiple obligors be processed? Will the employer be asked to use coupon books or simply to provide a paper listing of the payments being made? Is a computer-generated listing more desirable?

Implementing a Central Payment Registry

4. Which of the following EFT options will be implemented?

Direct deposit of income withholding

Automatic withdrawals from checking

Obligor-initiated electronic transfers

Through ATM

Through voice response

Credit or debit card payments

Direct deposit to obligee checking

With written notification

With ATM

With voice response

Check verification

5. How will new EFT options be publicized and implemented? Is it desirable to introduce them to a subset of the population as a pretest or should the option be made available to all obligors and obligees?

6. Should any of the EFT options be implemented prior to implementation of the payment center to take immediate advantage of the economies they will bring?

7. Can existing bank relationships be used or are new associations needed? Does the current bank offer:

Acceptable EFT transaction fees?

The ability to receive employer direct deposits of withheld income and pass data to the child support agency?

If needed, lock-box services?

Membership in a common ATM network?

8. Where should the payment center be located?

**Procedure
Analysis**

Once the duties and structure of the payment center are defined, there are several general procedural areas that must be specified. It will be necessary to design and document the procedures that will be used by the new center for the benefit both of the staff members who will work there and of the programmers who must design system interfaces.

The case initiation process

How will information about support orders (both IV-D and non-IV-D if appropriate) be transferred to the payment center?

The billing and wage withholding process

How will obligors be notified about payment requirements and the methods they can use to pay? How will changes in obligor/employer relationships be updated over time?

The paper-based receipting process

How will payments be handled as they are received by the payment center and/or lock-box? Batching and auditing procedures are very important and must be established from the beginning. Procedures must also be developed for multiple categories of check-based payments, including:

- Obligor checks with coupons/bills
 - When the amounts match
 - When the amounts do not match
- Obligor checks without coupons/bills
- Employer checks with coupons/bills
 - When the amounts match
 - When the amounts do not match
- Employer checks without coupons/bills
- Any single check for multiple support obligations

Implementing a Central Payment Registry

- Checks made payable to the obligee, not the agency
- Unidentified checks
- Checks from obligors with bad check histories

Cash receipting process

Some obligors pay their support payments in cash or another negotiable form. It is necessary to create procedures for processing these payments within the payment center framework or to publicize that these forms of payment will not be accepted.

EFT receipting process

In addition, procedures must be established to process and allocate payments made through EFT, either from an employer or from an obligor. Procedures are needed both for the initial set-up of EFT transactions and for ongoing use. This category may include:

- Automatic withdrawals from obligor checking accounts
- Automatic withdrawals from obligor credit/debit card
- EFT payment transfers authorized by obligor
 - Through ATM
 - Through voice response
- EFT payment transfers made by employers for one obligor
- EFT payment transfers made by employers for more than one obligor

Deposit consolidation and transmittal process

The procedures for consolidating all these possible forms of receipts into a whole and depositing them into the appropriate bank account must be documented. Any forms needed in this process, such as deposit slips or letters of transmittal must be identified.

The payment process

Child support disbursements can be made either in the form of warrants or as electronic payments.

1. Payments made by warrant

What kind of information is needed by the entity that creates the warrants? What responsibility will the payment center have in accounting for and actually sending the warrants?

2. Payments made electronically

When payments are credited to the obligee account using EFT, the registry may still be responsible for providing a notification of that transfer and procedures must be devised to document the process. It is also necessary to identify the procedures that must be followed to advise the various financial entities involved (a Treasurer's Office, banks, ACHs) of the transfer of funds.

The cost allocation process

How will the administrative costs related to IV-D versus non-IV-D cases be tracked and reported? (This breakdown is necessary to obtain federal support for IV-D case processing costs.) If a number of jurisdictions are sharing the center and costs must be allocated back to them, this tracking must also be planned. This process will be particularly significant to states which choose to require that all types of child support case payments be cleared through the same organization that handles payments for the IV-D program.

Recruiting Employers for Direct Deposit

One of the most critical (and the most challenging) steps in establishing a payment center is recruiting employers to participate in wage withholding of child support using EFT. As discussed previously, the benefits to employers of this approach can be substantial. The time and expense involved in preparing and sending a check and an obligor listing each payroll period can be replaced by a much faster and cost-effective fund transfer. As the incidence of wage withholding increases in the next few years, the efficiency of electronic funds transfer will become even more important.

Potential objections

However, some employers may feel that, although the process of creating checks for child support is a nuisance, it is not so bad that a major shift to another processing method is warranted. Others may use payroll processing software that is limited in function and may not wish to add the capability of EFT for child support.

Preparing for employer recruitment

Groundwork must be done before the actual recruitment process.

Define the process. The first and most important step is to clearly define the process that will be used so it can be presented to employers. The introduction of NACHA-based standards will be helpful in reaching this goal.

The inevitability of wage withholding. Many employers may still be unaware of the federal legislation that mandates wage withholding of child support for all IV-D cases beginning in 1990 and of all non-IV-D cases beginning in 1994. These laws and their impact on employers must be clearly conveyed. Once employers understand the volume of withholding they will be required to perform, they will be more willing to undertake any necessary adjustments to their data processing systems. It may be helpful to send brochures describing the Family Support Act to employers prior to the recruitment process.

Quantify the advantages of EFT. It may be necessary to prepare a cost-justification for some employers that compares the cost of paper checks to the cost of EFT transfers.

The actual recruitment process

Once the groundwork is done, employers should be approached as soon as possible. In fact, this work should be started even before the payment center is established.

The following sequence of events is suggested for the actual recruiting.

1. Prepare a comprehensive list of employers.
2. Send a mailing explaining the Family Support Act of 1988, the new EFT option, and the payment center concept.
3. Contact the largest employers first. They are the ones most likely to be interested and to have adaptable payroll software. Try to set up meetings to discuss the EFT concept and involve as many staff members as possible.
4. Work through the list until all employers have been contacted.
5. Develop a clear and detailed implementation plan for each employer that agrees to participate in EFT for wage withholding. The plan should show firm dates for cutover to the new method.
6. Monitor the list over time. Employers which do not wish to participate in EFT at this time will probably shift their stance eventually as EFT becomes more common and wage withholding spreads throughout the child support population.

It may be desirable to test the EFT transfer with a limited number of employers in the early days of the payment center. This cautious approach will help the implementing agency identify any problems early on and resolve them before a substantial number of employers are involved.

**Start-up
Planning**

A detailed implementation plan, which contains tasks, assignments, and schedules must be developed. The effect on current and future staffing levels must also be determined.

Adding Non-IV-D cases

One of the key decisions that must be made in planning for implementation is whether and how to add the non-IV-D cases to the

payment processing flow. As previously discussed, these cases might be added for two reasons. First, recent federal legislation states that mandatory wage withholding must be implemented for even non-IV-D cases as early as 1994. It makes sense to build in the capacity and procedures for these cases when the payment center is established, rather than making major adjustments later.

Second, the addition of non-IV-D cases will help to create the volume needed to take advantage of many of the innovative processing techniques described in this document.

The difficulty of adding non-IV-D cases is that information about their support orders and payment arrangements is hard to locate and keep up-to-date. For this reason, it is recommended that, if they are to be handled by the payment center, non-IV-D cases should be added whenever a new support order is granted or an existing order is revised. The judicial authority can be required to submit a simple profile of the support order to the payment center at that time to serve as a basis for payment processing. To expedite the process of wage withholding, it is suggested that the information required from the court include the obligor's employer of record at the time the order is initiated or modified.

Ongoing staffing needs

When functions are centralized, by definition certain jobs will be eliminated at the local level while other positions are created at the central level. To assist implementing agencies in determining how staff shifts might be made, a description of the type of staff members that will be needed at a payment center is provided here.

In Iowa, where approximately \$6 million in payments are processed each month, the payment center is operated by about 30 staff members. Their responsibilities fall into one of two major categories: customer service or accounting.

1. Customer service staff

These individuals answer questions posed by obligors, obligees, and employers; diagnose and resolve account problems; and maintain account information. The latter responsibility involves

creating new accounts, making address changes, and ensuring that order data is forthcoming from the courts. General clerical tasks may fall within this job category, as well.

In Iowa, the following position titles and counts are currently used:

Customer service representatives	6
Customer service clerks	7

2. Accounting staff

Depending upon the size of the operation, this category may include clerks, systems support workers, and managers. These individuals:

- Receive and sort payments
- Keep adding machine tapes of payment groups
- Look up accounts for payments without coupons
- Operate the remittance processor
- Reconcile the daily deposit
- Process exceptions
- Transmit data to other computer systems
- Verify and issue warrants

In Iowa, the accounting staff is currently comprised of these positions:

Accounting Supervisor	1
Accounting Technician III	1
Accounting Clerk II	1
Accounting Clerk I	2
System Support Worker II	3
System Support Worker I	1
Mailroom Staff	6

Start-up staffing needs

In addition to the ongoing positions described above, it is sometimes desirable to add temporary staff during the start-up phase. Their work may include adding cases to new or modified data processing systems established as part of the payment center. They may also need to assist

the permanent staff in tasks like clarifying payments sent without coupons or verifying warrants. Once the payment center is fully operational, these tasks may not be necessary.

**Develop
Budgets**

There will be four major categories of costs related to the establishment and operation of a payment center.

Start-up costs

This category includes the expenses incurred in developing the design of the center (with or without the assistance of a contractor), creating or adapting computer systems, conducting outreach activities, and gathering information on support orders. Also included would be any start-up fees assessed by banks or other service organizations used for EFT functions, as well as the materials (like ATM cards) needed for EFT.

Capital costs

These are also start-up costs, but are generally incurred in lump sum amounts. They might include furniture and equipment, a remittance processing machine, any special telephone equipment needed by the center, mail-opening equipment, microfilm viewers, printing equipment, and any computer equipment (like microcomputers, terminals, and printers) that is needed.

Ongoing monthly costs

This category includes staff salaries, office space, the amortized cost of equipment purchased during start-up (including monthly maintenance fees), supplies, printing (of notices and forms), postal-box rental, telephone charges, warrant- and coupon-book production, and postage.

Transaction-based charges

This category of expenses includes all items that are billed to the center by another organization for transaction-based services. The size and complexity of these charges will depend to a great extent on the number of EFT functions included in the design of the center. A partial listing

might include charges for lock-box services, ATM use, automatic withdrawal initiation, and direct deposit processing.

Procurement Most payment centers will include at least some of the advanced equipment described in this guide. The process of selecting, acquiring, and installing this equipment must be carefully planned because it can be very time-consuming. One important factor is the level of involvement that county or state purchasing staff will play in acquiring the equipment. If the procurement must be competitively bid, ample time must be built into the implementation schedule. Even after a vendor is selected, it may take several months to order and install the new equipment.

Centralizing Payment Information When establishing a payment center, it is necessary to create a "record of expectation" for payment. The registry must know exactly what support is owed by each obligor, which of several potential orders it is associated with, and how often it is to be paid. For IV-D cases, this record may already be present on a computer that can be accessed by the registry. However, it is also possible that information may be dispersed or incomplete and it will be necessary to bring that information together before activating the registry.

This deceptively simple step can actually take a great deal of time. The information can be widely dispersed and in many different formats. Nevertheless, securing information about child support orders and payment arrangements and keeping that information up to date is essential to accurate payment processing. In many states, this process will already be underway as part of the development of the certified statewide IV-D system. If non-IV-D cases are to be handled by the payment center, the process of constructing payment histories and case profiles may be much more complex, given that the payment of support has been conducted outside the agency structure.

The ultimate source of information for all cases is, of course, the court record of the support order. In the past, agencies which were implementing payment centers attempted to abstract the information they needed by examining these orders. However, the variety of formats and structures made this effort time-consuming and ultimately unsuccessful.

Implementing a Central Payment Registry

An alternate approach that has been used with much greater success is to require (by law, if necessary and appropriate) that the courts provide a summary of the support order in a logical and standard format to the agency whenever an order is established and modified. The one-time conversion of existing cases will still need to be accomplished, but the process of adding new or modified cases will be much more efficient.

Another important issue related to gathering payment information together is the determination of past arrearages and payment histories. Depending upon the quality and consistency of information about each court order, it may be possible to create a profile of past payments and enter it into the new system.

Some agencies that have implemented a payment center have produced printed versions of these payment histories and have sent them to obligors and obligees for verification before they are used as a basis for requesting payment. This additional step has increased the accuracy of the information maintained by the registry.

As mentioned before, most, if not all, of the information needed by a payment center is mandated by federal certification requirements for statewide IV-D computer systems. It is likely that in most states this process of updating case histories will be underway or completed when the payment center is implemented.

Programming

Any adjustments to existing computer systems must be defined, approved, and scheduled. Any additional computer systems (like personal computers or remittance processors) that are to be added must be specified. As mentioned previously, states must ensure that system development efforts are included in all relevant federally required Advance Planning Document and preapproval processes.

One function that is unlikely to be active on even the most sophisticated child support computer is the creation of a tape of obligors that can be used by a vendor to produce payment coupons. The vendor selected for this function will be able to provide the specifications for this tape and its contents.

It is very important, given the complexity of the child support payment process, that any new software, systems, and procedures be thoroughly

tested prior to use in the payment center. It is suggested both that a test environment be designed to simulate normal use and that any new systems be phased in gradually. The credibility of the entire centralized processing concept can be called into question if obligors receive inaccurate statements or obligees do not receive their payments in a timely manner. There is certainly no margin for error, especially with automatic withdrawals from obligor checking accounts.

As mentioned earlier, system changes required by the payment center need to be coordinated with the process of planning for development or modification of federally certified child support systems, since development of a payment center may require significant modifications.

**Outreach
Activities**

This step involves notifying obligors, obligees, and employers of the new services offered. Attention must be given to legal requirements for notification about changes of this magnitude. New notices may have to be designed and printed to explain new procedures and payment options. If the state chooses to clear all child support payments through the same organization that handles IV-D payments, it may also be necessary to take special steps to prepare non-IV-D obligors for their new involvement with the agency and any possible processing fees. Outreach should also include training on the new approach within the child support agency and the courts to ensure maximum cooperation from the beginning.

SOURCE NOTES

1. U.S. Department of Health and Human Services, Office of Child Support Enforcement. *Twelfth Annual Report to Congress, Volume II: Fiscal Year 1987 Statistics*. Tables 3 & 25, pp. 12 & 34.
2. Ibid.
3. U.S. Bureau of the Census, *Household and Family Characteristics: March 1985*, Current Population Reports, P-20, 411 at Tables F & G (September 1986). U.S. Bureau of the Census, P-20, 419 at Tables F & G (cited on 1-2).
4. Levy, M., Starling, N., and Haby, E., *Analysis of the Iowa Collection Services Center Process and Cost Analysis*. The Iowa-Nebraska Electronic Funds Transfer Project, September 1988.
5. Ibid.
6. At the time the study was done, the centralized transaction costs were estimated to be \$4.68. However, volume was expected to double with little, if any, increase in costs, making the projected costs only \$2.34 per transaction. Given the uncertainty over the possibility of needing some additional resources as volume increased, a conservatively high estimate of the eventual transaction costs is \$3.00.
7. Levy, M., Haby, E., et. al. *Electronic Funds Transfer Applications To Child Support*. The Iowa-Nebraska Electronic Funds Transfer Project, July 1988.

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